

{As Prepared for Delivery}

**Energy From Agriculture Forum
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**Thomas C. Dorr
Under Secretary for Rural Development
Opening Remarks: Day Two [As Prepared]**

Good morning. It's a pleasure to be with you today. I had the chance to visit with a number of you last evening, and I'm told the presentations yesterday were outstanding. That doesn't surprise me -- knowing most of the presenters -- and it certainly reinforces the reason we're here today.

The good news is, "Energy from Agriculture" is here. It's happening. It's exciting to be a part of it. And it's growing.

One small signal -- as if you needed another signal -- was Secretary Johanns' announcement last week of a new initiative at USDA to ensure that energy and energy conservation stay atop the USDA priority list.

The USDA Energy Council is charged with reviewing the department's programs across the board – from Rural Development to FSA to the Forest Service to NRCS and the Risk Management Agency -- to ensure that our operations fit into a cohesive energy strategy.

The Council will also ensure that agricultural producers have a place at the table in future discussions of national energy policy.

As the Chairman of the Council, I look forward to working with all of you to realize the significant potential of agriculture in America's energy future. And I pledge to you an open door and an attentive ear as you point out opportunities -- or raise concerns -- in the months ahead.

We have a lot to do. But fortunately, we're not starting from scratch. There's a lot on the drawing board and the future is bright -- and it's also not just gleam-in-the-eye, pie-in-the-sky sort of "stuff."

A lot is happening right now. There's dirt being turned, lines strung, and switches thrown as we speak. So let me thank each and every one of you for helping make this possible. You are making a difference.

Yesterday the Conference focus was on research and technical analysis. Today we're going to turn to the presentation of some Success Stories, followed by a panel on longer term perspectives and opportunities.

There is, of course, a context to this discussion, and the context is important. Context establishes our field of vision and planning horizon. It influences the questions we ask and the strategic investments we're prepared to make. It sets the direction.

There's a big difference, for example, between looking for quick fixes versus looking 30 years down the road. Context matters.

When we turn to ag-based energy, it's important to note that the context has changed. Ag-based energy isn't a new idea; it's been a gleam in the eye for many years. But today we are dealing with new realities. The strategic situation has evolved. You covered part of this yesterday with the review of the technical progress. This whole field is moving fast.

In fact -- and not for the first time -- the technology is probably ahead of public perceptions, not to mention the politicians. That's important because appropriate public policy and pricing strategies will be instrumental, perhaps decisive, in developing the new energy economy. We have an educational job to do, and each of us has a role to play.

Old perceptions die hard. For example, as an Iowa farmer I've been talking about green energy most of my life. But in the Corn Belt, alternative energy used to mean gasohol, and later ethanol, and we tended to view it mainly as a commodity management tool.

Frankly, ethanol still suffers from some of the public perceptions created at that time. That's one of our challenges today.

But time marched on -- as it tends to do -- and the context changed:

- **Energy became a national security imperative. It still is.**
- **Energy became an environmental issue. It still is.**
- **Energy became a balance of payments and economic competitiveness issue. It still is.**

- **Probably most important, oil doesn't cost \$3 a barrel anymore. Multiply that by about 20. \$60 a barrel oil changes the profitability equation for a lot of things.**
- **And as alternative energy technologies begin to come online -- technologies that have long been available, but were shelved as long as oil was cheap -- energy has emerged as a key rural development issue as well.**

So the context for alternative fuels is very different today than it was 40, 30, and even 20 years ago. And the stakes are higher.

So since I'm here representing USDA Rural Development – not the Department of Defense or EPA or Commerce – I'd like to expand a bit on our part of the energy portfolio. In doing so, however, let me emphasize that the national security, environmental, and balance of trade issues are hugely important.

This is an “all of the above” kind of issue, not “either-or.” There are many reasons the new energy economy is a key issue today. I'm going to focus on rural policy simply because that is our part of the equation.

Like anything else, rural policy has a context. The basic structure of U.S. agricultural policy was established during the Great Depression. The details have changed, but the core assumptions are still recognizable.

The first priority in the 1930's was addressing hunger -- and it remains addressing hunger in the global sense. There we've succeeded, at least domestically. We have the most productive agricultural complex in the world. American consumers enjoy an abundance never before seen in human history. We intend to keep it that way.

But a second priority back in the Depression arose almost immediately. That was farm stabilization.

With unemployment at 25% ... with incomes in rural areas one-third those in urban areas ... with the Dust Bowl choking the Plains ... with mechanization beginning to displace farm hands and tenants by the thousands each year, and eventually by the millions ... the federal government set out to keep family farms in business by managing the supply and price of agricultural commodities.

You know the results. It was a little like King Canute going down to the beach and commanding the tide not to come in.

In 1935, there were 6 million farms in America. Today, after 70 years of farm stabilization, two-thirds of them are gone.

And even that understates the shift. Of the 2 ¼ million farms that remain, about 175,000 produce most of our food and fiber, while the large majority of farmers derive most of their income from off-farm employment.

But despite the reduction in numbers, the farms that remain are so incredibly productive that the management of surpluses remains a chronic issue. The core farm policy paradigm has stayed in place while most of the farms it was designed to serve disappeared.

The changes go much deeper than numbers. In 1935, most farmers still plowed behind a horse, drew their water from a well, and got ready for

bed when the sun went down. The electrical grid didn't reach them yet – and frankly, it wouldn't until we came along.

Farming was still mostly hard, physical labor. Farm technology in my grandfather's day would have been recognizable to the settlers in Jamestown three hundred years earlier. Farm incomes were relatively low, and if you didn't want to farm you went to town, because there was nothing else in the countryside.

That was the world for which our traditional policy structure was developed.

Today, however, it's more than just a little different.

In literally a single lifetime, we've gone from plowing behind a mule to gene splicing and GPS mapping and guidance. Agriculture is capital and technology intensive; farmers are above average in income; and most rural residents -- on or off the farm -- take modern infrastructure for granted, drive to the regional mall to shop, and surf the net at night.

A seventeenth century Jamestown settler would have been right at home on my grandfather's farm -- once he got used to the railroad -- but he'd be completely lost on mine.

70 years ago, markets were local and regional. Today, they're global, and competition is intense. My grandfather didn't have to worry about producers in Brazil or Australia setting the price. Today we do.

Back then, rural America was farming, ranching, forestry, mining, and small towns catering to those industries. Today, 96% of the income and virtually all the job growth in rural America is from non-farm sources.

What all of this means is that the institutional and contextual pressures on traditional ag policy are becoming overwhelming. The old paradigm simply doesn't fit very well anymore. American Gothic is a great painting -- but it's no longer a portrait of rural America.

As a result, traditional farm policy is morphing into something much broader. Partly by plan, partly by default, farm policy is becoming trade, technology, and rural development policy. It's not just commodity support anymore.

Just look at the evolution of the Farm Bills over the years. The scope is widening with each iteration. At this point, we still have a Farm Bill with a Rural Development Title. With 96% of the income in rural areas being earned off the farm, one can fairly wonder if it shouldn't be the other way around.

This evolution is reinforced by budget pressures. There's no question that we're in a tight budget environment and will be for the foreseeable future. The traditional commodity support paradigm is under enormous pressure, on WTO as well as budgetary grounds.

At this point I need to insert a quick caveat. I'm not going to try and predict the next Farm Bill. Obviously Congress has reversed course on commodity supports in each of the last two Farm Bills. The policy pressures underlying that volatility are as intense today as ever, and I don't know what Congress will do in 2007.

But from a rural development standpoint, it is clear that the context has changed. Rural policy is a lot bigger than what Congress chooses to do

on corn, wheat, beans, cotton, and rice. Title I of the Farm Bill will still be important, but the drivers of growth in rural communities lie elsewhere. That's where energy comes in.

Energy, of course, isn't the only factor in the mix. A cluster of things have come together:

- **Structural changes in the farm economy;**
- **Public policy constraints;**
- **New opportunities in value added production and biotech;**
- **The continuing diversification of the rural economy;**
- **The movement of industry and service businesses out of central cities, and**
- **The decentralizing impact of the internet, which makes rural communities competitive in ways they've not been for many years.**

My point is, all these things are coming together NOW. Each of them is individually significant. They're all spokes of the wheel. The hub is a vision for rural development that is attuned to market signals, not

program signals; a vision that embraces change and is alert to new opportunities.

The fact is, today and for years to come in rural America, most of the economic dynamism ... most of the growth ... most of the new jobs ... most of the new opportunities ... will occur off the farm.

The question for us is how to support a seamless transition of rural communities to this new economic and resource base.

Energy is a critically important Rural Development priority because it is one of the key tools available today to support this transition:

- **The new energy economy is going to be rural.**
- **Wind and solar imply distributed generation, require space, and new ideas about business strategies and pricing.**
- **Ethanol, biodiesel, methane gas recovery, direct combustion – all the biomass technologies – rely on agricultural inputs and, like wind and solar, demand new business models and pricing strategies.**

- **And the potential for revitalizing rural communities, creating jobs, and building new businesses is virtually unlimited.**

We're excited to be a part of this story. You heard from Bill Hagy yesterday about the programs and resources we bring to the table, and I'll not repeat what Bill had to say.

I will simply note that this is a top priority for USDA Rural Development, and that Secretary Johanns has now made it a top priority for USDA as a whole. We'll have a chance to discuss this at more length later.

But first I'd like to present a few of our partners in rural development:

- **David Kulsrud of Beaver Creek, Minnesota, is Manager of the CORNER-er Stone Farmers Cooperative, owner of a \$12 mgy dry mill ethanol facility financed with a \$5 million Business and Industry Guaranteed Loan;**

- **Paul and Alice Neppel of Spirit Lake, Iowa, have installed a 1.5 megawatt wind turbine on their farm in Emmet County partially financed with a \$400,000 Section 9006 grant;**
- **Robert Worsely and Meredith Russell, are principals in the Snowflake White Mountain Power LLC, a biomass conversion project 17 miles southwest of Snowflake, Arizona; and**
- **Darryl Vander Haak of Lynden, Washington, installed a methane recovery digester system with assistance from NRCS.**

I want to thank each of these individuals for taking the time to join us today. They are the real stars of this show. Talk at conferences is easy. Actually getting something done in the field -- and turning an opportunity into a paying business -- is a tougher proposition.

Long after the speeches are done and the press releases are written (and forgotten), it is the vision and leadership of people like this that makes

the difference. So please join me in welcoming David Kolsrud, who will lead this off, and then Paul, Alice, Bob, Meredith, and Darryl.

Thanks for what you are doing to make the new energy economy a reality. It is truly a privilege to work with you.